



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence

Chairperson of the executive authority  
125 Hospital street  
Malamulele  
0982

Date : 05 December 2017

Reference: 62012REG2016/17

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Collins Chabane Local Municipality for the year ended 30 June 2017**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

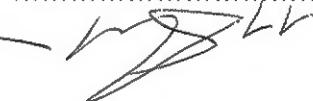
the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

preparing to print the report. This signature, as well as the place and date of signing and

kindly acknowledge receipt of this letter.

Yours sincerely

Senior Manager: PTB 8



Signed

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# Report of the auditor-general to the Limpopo provincial legislature and the council on Collins Chabane Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Collins Chabane local municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matter described in the basis for qualified opinion section of my report the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act 2016 (Act No. 3 of 2016) (DORA).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Expenditure for work in progress was not recorded in the financial records. Consequently, work in progress was understated by R5 431 978 and gain from transfer of functions was understated by the same amount.

#### Receivables from exchange transactions

4. The municipality recognised a receivable from exchange transactions amounting to R3 065 456, the amount could not be confirmed as a payable by the transferring entity. I was unable to determine whether any adjustment to receivables from exchange transactions stated at R3 957 613 in note 7 to the financial statements was necessary. Additionally, there was a resultant impact on payables and surplus for the period.

#### Payables from exchange transactions

5. The municipality did not have adequate systems in place to maintain records of retentions. I identified a difference of R4 434 863 between retentions as per the financial statements and the underlying accounting records. Consequently, retentions were understated by R4 434 863 and gain from transfer of functions was understated by the same amount.



## Revenue from non-exchange transactions

6. The municipality did not recognise all revenue in accordance with GRAP 23, *Revenue from non-exchange transactions*. Incorrect tariffs were applied to monthly property rates billings. Consequently, revenue from non-exchange transactions was understated by R4 337 944 and receivables from non-exchange transactions was understated by the same amount.

## Revenue from exchange transactions

7. The municipality did not recognise all revenue in accordance with GRAP 9, *Revenue from exchange transactions*. Incorrect interest rates were applied to outstanding debtors. Consequently, revenue from exchange transactions was understated by R1 333 992 and the receivables from exchange transactions was understated by the same amount.

## Expenditure

8. The municipality did not depreciate municipal assets in accordance with GRAP 17, *Property, plant and equipment*. Incorrect depreciation rates were used and immovable assets were not depreciated per component. I was not able to determine the impact on amount of depreciation and the net carrying amount of property, plant equipment as it was impracticable to do so

## Context for the opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
10. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Material losses/impairments

13. As disclosed in note 8, 9 and 10 to the financial statements, material losses to the amount of R109 573 352 were incurred as a result of impairment of irrecoverable trade debtors due to inadequate collection processes
14. As disclosed in note 7 to the financial statements, material losses to the amount of R84 583 were incurred as a result of theft of inventory



### **Material underspending of the conditional grant**

15. As disclosed in note 15 of the statement of financial position, the municipality has materially underspent on conditional grants to the amount of R38 939 290

### **Irregular expenditure**

16. As disclosed in note 39 to the financial statements, irregular expenditure to the amount of R7 926 426 was incurred, as a proper tender and quotation process had not been followed.

### **Fruitless and wasteful expenditure**

17. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure to the amount of R1 125 367 was incurred, due to late submission of tax returns, payment of salary for employee who was not at work and overpayment of cell phone allowance to councillors.

### **Other matter**

18. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

19. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

### **Responsibilities of the party responsible for the financial statements**

20. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP, the requirements of the MFMA and DORA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

21. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

22. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



23. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

### Report on the audit of the annual performance report

#### Introduction and scope

24. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

25. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 1: Municipal transformation and institutional development	x – x
KPA 2: Basic service delivery and infrastructure development	x – x

27. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

28. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

#### **KPA 1: Municipal Transformation and Institutional Development**

##### **Indicator: % review of the organizational structure review by June 2017.**

29. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).



**Indicator: % posts evaluated by June 2017**

30. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

31. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

32. The reported achievement for target was misstated as the evidence provided indicated 11% and not 100% as reported.

**Indicator: Number of HR policies rationalized**

33. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

34. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

35. The reported achievement for target was misstated as the evidence provided indicated 17 and not 24 as reported.

**Indicator: Number of critical by-laws rationalized**

36. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

37. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: IDP /Budget Framework and Process Plan**

38. The source information and/or evidence for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.

**Indicator: Draft IDP compile and submitted to council by 31 March 2017**

39. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

**Indicator: Approved of final IDP**



40. The source information and/or evidence for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.

**Indicator: MSCOA**

41. The source information and/or evidence for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.

**Indicator: Organisational performance management framework approved by council**

42. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

43. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

44. The reported achievement for target was misstated as the evidence provided indicated that no Organisational Performance Management Framework was approved by Council.

**Indicator: Number of Back to Basics reports compiled**

45. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

46. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Work place skills plan developed by June 2017**

47. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

48. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

49. The reported achievement for target was misstated as the evidence provided indicated that no Work Place Skills Plan was developed by June 2017

**Indicator: % training sessions conducted for councillors**



50. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
51. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: % training sessions conducted for officials**

52. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
53. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Number of vehicles purchased for political office**

54. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
55. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: % litigations attended**

56. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
57. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**KPA 2: Basic Service Delivery and Infrastructure Development**

**Indicator: Level of project implementation (Sibuyi to Vyeboom road)**

58. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.



59. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Level of project implementation (Saselamani stadium upgrade)**

60. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPPI.

61. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Level of project implementation (Xikundu ring road)**

62. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPPI.

63. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Level of project implementation (Malamulele B Extension Street upgrading)**

64. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPPI.

65. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Report to the portfolio committee on the process of forward regarding projects for 2017/18**

66. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPPI.

67. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems.



It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

68. The reported achievement for target was misstated as the evidence provided indicated that no report to the Portfolio Committee on the process of forward regarding projects for 2017/18 was drafted.

**Indicator: Report to the portfolio committee on the maintenance and repairs conducted**

69. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
70. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.
71. The reported achievement for target was misstated as the evidence provided indicated no report to the Portfolio Committee on the maintenance and repairs conducted was drafted.

**Indicator: Procurement of equipment**

72. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
73. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Provide free basic refuse removal to villages with sustained refuse removal services by June 2017**

74. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
75. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.
76. The reported achievement for target was misstated as the evidence provided indicated 32 and not 42 as reported.



**Indicator: Number of businesses and government departments with sustained refuse removal service by June 2017**

77. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
78. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.
79. The reported achievement for target was misstated as the evidence provided indicated 15 and not 20 as reported.

**Indicator: Number of campaigns**

80. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
81. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Licence landfill site**

82. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
83. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.
84. The reported achievement for target was misstated as the evidence provided indicated that no licence for landfill site was secured.

**Indicator: Number of trained healthy and safety representatives by June 2017**

85. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
86. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems.



It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Number of safety inspections conducted by June 2017**

87. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
88. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Percentage graves provided by June 2017**

89. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
90. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.
91. The reported achievement for target was misstated as it could not be verified to the reported target achievement.

**Indicator: Percentage application for learner driver's permit issued by June 2017**

92. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
93. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.
94. The reported achievement for target was misstated as the evidence provided could not be verified to the reported target achievement.

**Indicator: % drivers licences issued by June 2017**

95. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.
96. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and



report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

97. The reported achievement for target was misstated as the evidence provided could not be verified to the reported target achievement.

**Indicator: % motor vehicles tested by June 2017**

98. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

99. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

100. The reported achievement for target was misstated as the evidence could not be verified to the reported target achievement.

**Indicator: Number of sports facilities maintained by June 2017**

101. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

102. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

103. The reported achievement for target was misstated as the evidence provided indicated 2 and not 5 as reported.

**Indicator: Number of municipal building gardens maintained**

104. The source information and/or evidence for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.

105. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

106. The reported achievement for target was misstated as the evidence provided indicated 2 and not 4 as reported.

**Indicator: Municipal planning tribunal established by 30 June 2017**



107. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

108. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

#### **Indicator: Spatial development planning framework**

109. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

110. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

#### **Indicator: Land use management scheme**

111. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

112. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

#### **Indicator: Report quarterly to the portfolio on the process of land use applications in terms of the relevant legislations ( SPLUMA)**

113. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

114. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

#### **Indicator: Approved business park, Malamulele Ext E ( 56 Erfs)**

115. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.



116. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Municipal valuation roll**

117. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

118. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Malamulele extension B (Not proclaimed)**

119. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

120. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

**Indicator: Percentage of building plans received and processed by June 2017**

121. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

122. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

123. The reported achievement for target was misstated as the evidence provided indicated 3 and not 10 as reported.

**Indicator: Number of illegal activities and land invasion cases attended**

124. The source information and/or evidence for the achievement of the planned indicator were not clearly defined, as required by the FMPPI.

125. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not designed as required by the FMPPI. The municipality does



not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.

## **Other matters**

I draw attention to the matters below.

### **Achievement of planned targets**

126. Refer to the annual performance report on pages x to x; for information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraphs [x; x; x] of this report.

### **Adjustments of material misstatements**

127. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: Municipal Transformation and Institutional Development and KPA 2: Basic Service Delivery and Infrastructure Development of development priorities. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified opinion paragraphs.

## **Report on audit of compliance with legislation**

### **Introduction and scope**

128. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

### **Financial statements, performance and annual reports**

129. The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

130. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

131. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving qualified audit opinion.



## **Revenue management**

132. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
133. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## **Expenditure management**

134. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
135. Effective steps were not taken to prevent irregular expenditure amounting to R 7 926 426, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulations.
136. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 125 367, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by late submission of tax returns, payment of salary for employee who was not at work and overpayment of cell phone allowance to councillors.

## **Asset management**

137. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## **Procurement and contract management**

138. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
139. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
140. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA).
141. Quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the PPPFA and its regulations.
142. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. This non-compliance was identified in the procurement processes for the upgrade of Vuwani stadium and Sasekani ring road.



143. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

### **Human resource management**

144. Municipal manager failed to disclose financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers

145. Senior managers failed to disclose financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers

146. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA

147. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA

### **Other information**

148. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.

149. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

150. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

### **Internal control deficiencies**

151. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

### **Leadership**

152. For most part of the year the positions of chief financial officer and municipal manager were occupied by personnel seconded from Treasury and Coghsta on an



acting capacity. Deficiencies identified in internal control were identified due to this instability at senior management level.

153. Management did not always provide the required supervision and review over daily and monthly recording and reconciliation of transactions and account balances to ensure that the municipality complies with will applicable financial reporting.

154. There were vacancies at all levels during the period under review.

### **Financial and performance management**

155. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report.

156. The municipality did not develop an effective system which verifies the accuracy, completeness and the reliability of the reported performance contained in the annual performance report.

157. The financial statements were not reconciled to the underlying records to ensure the accuracy, completeness and reliability of the reported financial results.

158. Monthly reconciliations for financial reporting and compliance with laws and regulations were not subjected to proper review to ensure accuracy, completeness and reliability of the reported financial results.

### **Governance**

159. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

*Auditor-General*

Polokwane

05 December 2017



*Auditing to build public confidence*

